

Message Text

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ACTION EUR-12

INFO OCT-01 AF-08 ARA-06 EA-07 NEA-10 IO-13 ISO-00 FEA-01
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
EB-08 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04
TRSE-00 ACDA-07 PA-01 PRS-01 /147 W
-----121455Z 022779 /40

R 121249Z FEB 77
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9714
INFO ALL EC CAPITALS 0365
USMISSION GENEVA
USMISSION EC BRUSSELS
USMISSION NATO
AMEMBASSY BERN
AMEMBASSY LISBON
AMEMBASSY MADRID
AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY MUSCAT
AMEMBASSY QUITO
AMEMBASSY TEHRAN
USINT BAGHDAD

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E.O. 11652: N/A
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SUBJECT: FRENCH PETROLEUM DEVELOPMENTS

REFS: (A) PARIS 02956; (B) PARIS 37946

1. SUMMARY: GOF HAS ANNOUNCED MODERATE PRICE
INCREASES, (EFFECTIVE FEBRUARY 11) FOR REGULAR AND
SUPER GASOLINE, DIESEL FUEL, HOME HEATING OIL AND HEAVY

INDUSTRIAL OIL. ON FEBRUARY 9 COUNCIL OF MINISTERS ALSO AUTHORIZED ELECTRICITE DE FRANCE AND 20 MAJOR INDUSTRIAL CONSUMERS OF HEAVY FUEL OIL TO CIRCUMVENT DOMESTIC OIL COMPANIES AND UNDERTAKE--IF THEY WISH-- DIRECT INTERNATIONAL PURCHASES OF HEAVY FUEL OIL. SHORT RUN EFFECT OF MODERATELY HIGHER PRICES ENTAILED IN BOTH THESE DECISIONS WILL PROBABLY BE MORE PSYCHOLOGICAL THAN REAL AND SHOULD NOT DISRUPT PROGRESS RECENTLY DEMONSTRATED BY PRIME MINISTER BARRE'S ANTI-INFLATION PROGRAM. IN LONGER RUN, THEY SEEM TO SIGNAL GOVERNMENT INTENTION TO PASS ON PRICE INCREASES QUICKLY, AND ENCOURAGE CONSERVATION OF LIGHTER PETROLEUM PRODUCTS (THOSE MOST USED BY HOUSEHOLDS AND INDIVIDUAL CONSUMERS), WHILE SIMULTANEOUSLY FREEING INDUSTRY'S HANDS TO OBTAIN, AT LOWEST POSSIBLE PRICES, AS MUCH HEAVY INDUSTRIAL FUEL AS MIGHT BE NEEDED TO SUSTAIN HOPED-FOR ECONOMIC RECOVERY. END SUMMARY.

2. ON FEBRUARY 10, GOF ANNOUNCED PETROLEUM PRODUCT PRICE INCREASES WHICH DIRECTION DES CARBURANTS (DICA) CHIEF PIKETTY HAD TOLD US (PARA 2 REF A) WOULD BE FORTHCOMING. INCREASES, WHICH ARE LARGEY BASED ON DICA'S INITIAL READINGS OF OVERALL COSTS OF OIL IMPORTS UNDER OPEC TWO-TIERED SYSTEM, RANGE FROM 2.3 PERCENT (REGULAR GASOLINE) TO 8.2 PERCENT (HEAVY FUEL OIL). UNIT INCREASES AUTHORIZED WERE (NEW PRICES IN PARENTHESIS): REGULAR GASOLINE--5 CENTIMES (2.14 FRS/LITER); SUPER GASOLINE--6 CENTIMES (2.31 FRS/LITER); DIESEL OIL--5 CENTIMES (1.39 FRS/LITER); HOME HEATING OIL-- LIMITED OFFICIAL USE

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4.9 CENTIMES (0.78 FRS/LITER); HEAVY FUEL OIL--30 FRANCS (394 FRS/TON). (ON FEBRUARY 11, 4.97 FRANCS EQUALLED ONE DOLLAR.) PRIME MINISTER'S COMMUNIQUE, WHICH ACCOMPANIED ANNOUNCEMENT OF NEW PRICES, SPECIFIED THAT WHILE "5 PERCENT INCREASE DRAWN UP AT END OF 1976 BY MODERATE PRODUCERS WAS RETAINED AS BASIS FOR THEIR DECISIONS", ADDITIONAL COSTS BRINGING CALCULATION OF OVERALL AVERAGE INCREASE UP TO 6.5 PERCENT HAVE BEEN CALCULATED BOTH AS A RESULT OF DOLLAR/FRANC RELATIONSHIP ON EFFECTIVE DATE OF NEW PRICES AND ALSO BECAUSE OF TRANSPORTATION AND HANDLING COSTS. NORM OF 6.5 PERCENT ACTUALLY USED, WHILE IT CORRESPONDS EXACTLY TO BARRE PLAN'S PERMISSABLE INFLATION GUIDELINE, SHOWS GOF'S INITIAL 1977 EFFORT IN OIL PRICE REGULATION TO BE CUTTING FULL PERCENTAGE POINT BELOW DICA'S EXPECTED 7.5 PERCENT OVERALL INCREASE IN 1977 OIL IMPORT COSTS (PARA 3, REF A), AND IT DEMONSTRATES GOVERNMENT'S SENSITIVITY TO POSSIBLE INFLATIONARY IMPLICATIONS OF HIGHER PETROLEUM PRICES AT TIME WHEN GOF WOULD DEARLY

LIKE TO HAVE FRENCH ECONOMIC INDICATORS CONTINUE TO SHOW STABILIZING TRENDS WHICH BEGAN IN DECEMBER. WE THINK INCREASES FOR REGULAR AND SUPER GASOLINE, DIESEL AND HOME HEATING OILS ARE SMALL ENOUGH--IN-AND-OF THEMSELVES--TO JUSTIFY GOF'S SHORT-RUN NON-INFLATIONARY EXPECTATIONS. IN END, HOWEVER, AS OFFICIAL GOF PRONOUNCEMENTS HAVE CLEARLY SIGNALED, WORLD MARKET TRENDS WILL DICTATE COURSE OF DOMESTIC PRICES HERE. ADDITIONAL INCREASES LATER THIS YEAR MAY BE EXPECTED.

3. HEAVY FUEL OIL SITUATION IS DIFFERENT, BUT GOF

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ACTION IN THIS INSTANCE ALSO FITS INTO PRICE POLICY PATTERN AIMING AT MINIMUM POSSIBLE, AND HOPEFULLY NON-INFLATIONARY, INCREASES AT THIS CRITICAL STAGE OF BARRE PROGRAM. ACTUALLY, HEAVY FUEL OIL PRICE WAS INITIALLY EXPECTED TO INCREASE 11 PERCENT, OR 40 FRS/TON. THIS WAS AMOUNT LOCAL OIL COMPANIES SAID THEY HAD TO HAVE TO MAKE UP LOSSES INCURRED BY BEING FORCED TO SELL PRODUCT AT LOW, CONTROLLED FRENCH PRICE OF 364 FRS/TON. COMPANY EXPECTATIONS WERE NOT MET, HOWEVER, WHEN "PROMISED" 40 FRANC INCREASE SCHEDULED TO BE PUBLISHED BY GOVERNMENT ON FEBRUARY 2 WAS RECALLED AT ELEVENTH HOUR AND SUBSEQUENTLY REDUCED TO 30 FRANCS. FURTHERMORE ON FEBRUARY 9, COUNCIL OF MINISTERS AUTHORIZED ELECTRICITE DE FRANCE AND 20 OTHER MAJOR INDUSTRIAL CONSUMERS OF HEAVY FUEL OIL TO BEGIN HOLDING A-3 PETROLEUM PRODUCT IMPORTING AND MARKETING LICENSES AND THUS--IF THEY WISHED--TO CIRCUMVENT DOMESTIC OIL COMPANIES (WHOSE A-3 LICENSES HAVE NOT RPT NOT BEEN REDUCED) AND PURCHASE HEAVY FUEL OILS DIRECTLY IN INTERNATIONAL MARKET. THIS ACTION BY THE COUNCIL FULFILLS A LAURE-COMMISSION RECOMMENDATION OF TWO YEARS AGO.

4. SHORT RUN EFFECT OF DIRECT PURCHASE DECISION IS LIKELY TO BE MORE PSYCHOLOGICAL THAN REAL. COUPLED WITH NEW INTERNAL FRENCH HEAVY FUEL PRICE OF 394 FRS/TON, INDUSTRIAL CONSUMERS HERE WILL FIND LITTLE TO ATTRACT THEM TO CURRENT ROTTERDAM PRICES OF ABOUT 411 FRS/TON. GAP IS CLOSING, HOWEVER, AND SHOULD GOF LATER THIS YEAR LET INTERNAL PRICES PULL ABREAST OF INTERNATIONAL ONES, FRENCH INDUSTRIAL CONSUMERS COULD HAVE SOME LEVERAGE IN THEIR UPCOMING HEAVY FUEL CONTRACT NEGOTIATIONS WITH LOCAL OIL COMPANIES. THIS LEVERAGE, GOF HOPES, WILL OPERATE TO LET INDUSTRY OBTAIN, AT LOWEST REASONABLE PRICES, AS MUCH HEAVY INDUSTRIAL FUEL AS MIGHT BE NEEDED TO SUSTAIN PLANNED ECONOMIC GROWTH. IN THESE

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CIRCUMSTANCES, IF WORLD OIL MARKET DICTATES NECESSITY
OF FURTHER PRICE INCREASES IN FRANCE THIS YEAR, WE
IMAGINE THAT IT WILL BE THE PRODUCTS OFF LIGHTER END
OF BARREL (GASOLINE, DIESEL, HOME HEATING OIL) WHICH
WILL FIRST BE SUBJECTED TO PASS-ON OF PRICE INCREASES,
CONSERVATION JAWBONING, AND CURTAILMENT OF CONSUMPTION
IF NECESSARY. HEAVY INDUSTRIAL OILS WILL BE SPARED
THIS TREATMENT FOR AS LONG AS POSSIBLE. WHILE HEAVY
OILS ADMITTEDLY TOOK LARGEST INCREASE AS RESULT OF
FEBRUARY 10 PRICE DECISIONS, THIS WAS DONE SIMPLY
TO CORRECT RECENT PRICE DISTORTION BETWEEN LOCAL AND
INTERNATIONAL MARKETS. WE FEEL LONGER RUN WILL SHOW
GOF INCLINATION TO RETAIN STABLE HEAVY FUEL PRICES IN
CIRCUMSTANCES WHERE OTHER, LIGHTER PRODUCTS WILL BE
PERMITTED TO BECOME MORE EXPENSIVE.

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Message Attributes

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